

Annexure II

Data Definitions and Sources

Both univariate and multivariate forecasting have been carried out using a common sample from April 1997 to September 2002. The data definitions and sources of the variables are given in the Table below :

Variable	Definition	Source
CALL	Weekly weighted average call Money rates as compiled by the Reserve Bank. The call money rate upto 1997-98 is the weighted Arithmetic average of the rate at Which money was accepted and Reported by select scheduled Commercial banks at Mumbai, the Weights being proportional to the Amounts accepted during the Period by respective banks. Data for the period 1998-99 till April 2001 relate to those reported by Scheduled commercial banks, Primary dealers and select Financial institutions. Data since May 2001 include those of Commercial banks, primary Dealers, financial institutions, Insurance companies and mutual funds.	Handbook of Statistics on the Indian Economy and RBI Bulletin
TB 15-91	Government of India Treasury Bills of residual maturity of 15- 91 days based on the secondary Market outright transactions in Government securities (face value) as reported in Subsidiary Government Ledger (SGL) Accounts at RBI, Mumbai.	Handbook of Statistics on the Indian Economy and RBI Bulletin
GSEC1	Government of India dated Securities of residual maturity of one year based on the secondary Market outright transactions in Government securities (face value) as reported in Subsidiary Government Ledger (SGL) Accounts at RBI, Mumbai.	Handbook of Statistics on the Indian Economy and RBI Bulletin
GSEC5	Government of India dated Securities of residual maturity of five years based on the secondary Market outright transactions in Government securities (face value) as reported in Subsidiary Government Ledger (SGL) Accounts at RBI, Mumbai.	Handbook of Statistics on the Indian Economy and RBI Bulletin
GSEC10	Government of India dated Securities of residual maturity of ten years and above based on the Secondary market outright Transactions in Government Securities (face value) as reported in Subsidiary Government Ledger (SGL) accounts at RBI, Mumbai.	Handbook of Statistics on the Indian Economy and RBI Bulletin
LIBOR 3-months	Three-month LIBOR on USD Deposits	Money line TeleRate
LIBOR 6-months	Six-month LIBOR on USD Deposits	Money line TeleRate
Bank Rate	Bank Rate	Handbook of Statistics on the Indian Economy
REPO	Repo rate	See Note (1)

FP 3-months	Three-month forward premium	Handbook of Statistics on the Indian Economy and Weekly Statistical Supplement
FP 6-months	Six-month forward premium	Handbook of Statistics on the Indian Economy and Weekly Statistical Supplement
LIQUIDITY	Liquidity indicator variable	See Note (2)
CREDIT	Total credit (Food and Non-food). Data on food and non-food credit are available on a fortnightly basis. The weekly data are generated taking the average of the previous fortnight and succeeding fortnight figures.	Weekly Statistical Supplement
INFLATION	Both week-to-week and year-on-year inflation rate have been used.	Weekly Statistical Supplement
SPREAD	10-Year government security rate <i>minus</i> 91- days Treasury Bills rate.	As above

Note:

(1) Repo Rate

Repo rates for the period November 29, 1997 to June 5, 2000 are fixed rate repos. These rates are the cut-off rates based on the auctions made by the Reserve Bank. The fixed rate repo system was replaced by the introduction of the Liquidity Adjustment Facility (LAF) with effect from June 5, 2000 that operates with auction based repo (absorption) and reverse repo (injection) system. Whenever the repo (absorption) is non-existent, the rate has been calculated by taking the average of the previous day repo (absorption) rate and current reverse repo (injection) rate.

(2) Estimation of the LIQUIDITY Variable

The LIQUIDITY variable, as an indicator of market liquidity is estimated from bank reserves. Most of the recent research use bank reserves as a proxy for market liquidity. Bank reserves are the sum of reserve requirements and settlement balances including excess reserves. In economies where reserve requirements are marginal, bank reserves directly reflect the demand for settlement balances and excess reserves. In the Indian case, although reserve requirements continue to be significant, data on required reserves is not published. Hence, the study uses total reserves rather than excess reserves. Besides, in view of frequent cash reserve ratio (CRR) changes, there was a need to adjust bank reserves for changes in reserve requirements (see Sen Gupta *et. al.* (2000)).

The demand for bank reserves is expected to affect the lower end of the maturity spectrum of interest rates in the first round.

(3) Forward Premium

Given the gradual integration between the foreign exchange market and the domestic

money market, the forward premium is expected to be an explanatory variable in the determination of domestic interest rates (Bhoi and Dhal, 1998).

(4) Yield Spread

The yield spread is defined as the difference between the Government of India dated securities on residual maturity of ten-years and above and the 91-days treasury bills rate. It may be mentioned that the empirical models reported in this study use the Government of India Treasury Bills on residual maturity of 15-91 days based on the secondary market outright transactions in Government securities (face value). Since data on exact 91-days are not available for the secondary market instruments, the 91-days treasury bills rate (primary market) has been used while calculating the yield spread.